MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/ 2016

BFN2054 – PORTFOLIO MANAGEMENT

(All Sections / Groups)

11 March 2016
3:00 PM – 5:00PM
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **2** pages with **8** questions.
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Please write all your answers in the **Answer Book** provided.

Please answer all the questions

Question 1: 10 marks

Briefly expalin the Three (3) clear characteristics of the good investment policy statement.

Question 2: 10 marks

Discuss FOUR (4) factors of performance evaluation of international portfolio managers in terms of potential sources of abnormal returns.

Question 3: 15 marks

a) As a fund manager with one of the commercial bank, you bought a Treasury Bond with a coupon rate of 8.75 percent at par.

i) New bonds with comparable features rise to 9.5 percent. What will happen to the 8.75 percent bond's market price? (5 marks)

ii) Calculate the 8.75 percent bond's market price if new bond with comparable features are issued at 6.75 percent? What will happen to the price? (5 marks)

b) What is the difference between yield to maturity and holding period yield? (5 marks)

Question 4: 15 marks

Consider the following data for a period of year:

	Portfolio ***P***	Market ***M***
Average return	35%	28%
Beta	1.20	1.00
Standard deviation	42%	30%
Trackingerror (nonsystematic risk)	18%	0

Calculate the following performance measures for the Portfolio ***P*** and the Market ***M***: Sharpe Jensen (alpha), Treynor, information ratio, The Treasury bill rate during the period was 6.1%. By which measures did the Portfolio ***P*** outperform the market ***M***?

Continued...

Question 5: 15 marks

Ali Corporation is a manufacturer of boat parts and has been in business only a few years. Its board of directors decided to start paying a dividend to help boost the attractiveness of its stock. The dividend will be RM0.50 per share next year. After that dividends will increase by 4% per year. The company has a beta of 1.6. The market rate of return is 8% and the T-bill rate is 3%. Should you purchase shares in this firm at the current market price of RM6.98 per share?

Question 6: 10 marks

Bonds are exposed to five major types of risks. Name all of these risk and briefly explain each of them.

Question 7: 15 marks

A 12 %, 30 year Tele Bond has a par value of RM 1,000 and a call price of RM1,125. The coupon payments are made semiannually and the bond's first call date is in 10 years. Using these information:

a) Calculate the current yield, yield to call and yield to maturity of this bond if the current market price is RM 1,500. (9 marks)

b) If the bond's current market price drop to RM 975, what is the new current yield, yield to call and yield to maturity? (6 marks)

Question 8: 10 marks

What is the distinction between biological and liquidity risk with timberland?

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